NATIONAL COMMUNITY REINVESTMENT COALITION

NCRC

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October 3, 2000

Manager
Dissemination Branch
Information Management & Services Division
Office of Thrift Supervision
1700 G St. NW
Washington DC 20552

Attention: 1550-0023

To Whom it May Concern:

Please consider NCRC's July letter to the Federal banking agencies as our comment on the Thrift Financial Reports (TFR). The issues concerning the reporting of subprime loans are nearly identical.

Thank you,

John Taylor

John Taylor
President and CEO

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July 31, 2000

Communications Division
Office of the Comptroller of the Currency
250 E Street SW
Third Floor
Attention: 1557-0081
Washington DC 20219

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th and C Streets, NW
Washington, DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/OES
Federal Deposit Insurance Corporation
550 17th St., NW
Washington DC 20429

Alexander T. Hunt
Office of Information and Regulatory Affairs
Office of Management and Budget
New Executive Office Building
Room 3208
Washington, DC 20503

RE: Call Report Proposal
VIA E-Mail and Fax

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

Dear Federal Bank Regulatory Agencies:

The National Community Reinvestment Coalition (NCRC) appreciates the opportunity to comment on proposed revisions to the Consolidated Reports of Condition and Income (Call Reports). On a quarterly basis, banks submit detailed information on the performance of their loans and other assets to the Federal banking agencies. The agencies, in turn, use this information for their safety and soundness exams and other compliance functions. The general public has access to this critical data via the Federal Deposit Insurance Corporation (FDIC) and the Federal Financial Institutions Examination Council (FFIEC).

NCRC applauds the federal banking agencies for proposing that subprime lending information be included on the Call Reports. NCRC's 720 community organizations members are very concerned about the rise of predatory lending in their neighborhoods and the threat that this lending poses to neighborhood revitalization and stabilization efforts. Public information through the Call Reports on the types of subprime lending conducted by depository institutions will hold these financial institutions publicly accountable. They are more likely to engage in responsible subprime lending and cease any predatory activity if they know that detail on their interest rates, underwriting criteria, and delinquency and default rates will be publicly available.

NCRC studies have found that a dual lending market exists in many inner city and rural areas in which prime lenders serve white neighborhoods and subprime lenders disproportionately serve minority neighborhoods. Often, the pattern remains even after controlling for income differences across neighborhoods. Given this finding, it is imperative that Call Reports provide detailed data that allows the public and federal regulatory agencies to identify fair housing/fair lending violations. NCRC maintains that the regulatory agencies should include race and income data in the Call Reports or explore the possibilities of linking the Call Report database with HMDA (Home Mortgage Disclosure Act). Ultimately, HMDA should include loan term and interest information on a loan-by-loan basis. In the meantime, the Call Report data should include the percentages of minorities and low- and moderate-income borrowers that receive various categories of subprime loans.

Troubling evidence suggests that current subprime lending activities conducted by depository institutions is not safe and sound. The FDIC estimates that about 150 depository institutions make significant amounts of subprime loans. Even in the midst of an economic boom, a disproportionate number of subprime lenders are problematic from a safety and soundness point of view. Although

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subprime lenders constitute about 1 percent of all insured financial institutions, they account for 20 percent of depository institutions that have safety and soundness problems.

While NCRC appreciates the proposal of reporting subprime lending on Call Reports, NCRC recommends that the federal banking agencies make significant changes in their proposal regarding how subprime lending will be reported. The proposal includes a risk-based definition of subprime lending that is too vague and would lead to inconsistent reporting by lending institutions. The definition includes loans exhibiting characteristics "indicating a significantly higher rate of default than traditional bank lending customers." While the definition may seem to be appropriate, it will lead to inconsistent reporting because banking institutions have different tolerances for risk. On the one hand, risk-taking institutions may only report loans as subprime if they have very high interest rates and if the borrower's credit history is significantly impaired as reflected by a recent bankruptcy or another major event. On the other hand, a more conservative institution may report a loan as subprime if it is made to a borrower with only one or two blemishes on its credit record. Using different definitions of risk, the lending institutions are likely to report loans as subprime that have different terms and conditions and that are made to borrowers with different characteristics.

NCRC suggests that the means for achieving consistency would be to use interest rates to classify loans into different categories or "buckets." The federal banking agencies should adopt either a prime rate or use the Treasury rate as a national standard interest rate (while local markets have different rates, national averages are often used such as various Federal Reserve rates). Then the Federal agencies should require depository institutions to report the number and dollar amount of loans in the eight proposed categories (which include home, automobile, and credit card loans) by different interest rate buckets. The first bucket would be loans with interest rates 4 to 6 percentage points above the national benchmark rate; the second bucket would be loans with rates 6 to 8 percentage points above the benchmark; and the third bucket would be loans with rates more than 8 percentage points above the benchmark. According to the recent HUD/Treasury Task Force report on predatory lending, about half of the subprime lending consists of loans with rates 4 to 6 percentage points above comparable Treasury rates (NCRC's first bucket). A sizable amount of loans are in the remaining "second" and "third" bucket recommended by NCRC.

Lending institutions would report the mean and median values of loan and borrower characteristics of the loans within each bucket. NCRC believes that median and mean values could be reported for the following characteristics mentioned in the federal agency proposal: debt-to-income ratios, loan fees, loan-to-value ratios, and credit scores. In addition, the lenders should be required to report for each

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bucket, the percentage of borrowers that were delinquent more than 30 days two times within the last twelve months and the percentage that were delinquent more than two times.

The percentage of loans that were past due as well as nonaccrual should be reported for each bucket. This information should be reported for the proposed eight categories of loans. The federal agencies suggest that past due and nonaccrual information should be limited to two broader categories of loans, namely, loans secured by real estate and loans not secured by real estate. NCRC believes that broader categories for non-performance indicators will effectively conceal problematic practices in certain types of lending, making it difficult for regulatory agencies and the general public to take expeditious action.

Subprime information should be reported separately for originations and purchases. Lumping originations and purchases together will make it difficult for the general public to determine if an institution is itself making subprime loans or financing the origination of subprime loans.

NCRC's proposed reporting system of reporting loans by interest rate categories provides a consistent and uniform reporting format. It will also enable the regulatory agencies and the general public to gauge whether risk (as reflected by high loan to value ratios or high rates of delinquency) is correlated with interest rate. Ultimately, NCRC believes that all of these loan and borrower characteristics should be included in HMDA data. But until that time arrives, we believe that this information in the Call Reports would be a good starting point for better understanding subprime lending and holding lenders accountable for predatory lending practices.

In response to questions posed by the federal agency proposal, NCRC believes that subprime lending information should not be confidential for any length of time on Call Reports. It does not seem that a "confidential" start-up period is needed since lending institutions already have sophisticated databases with these loan and borrower characteristics. In addition, smaller institutions should not be exempt from the reporting requirements since some of the most egregious instances of predatory lending involve the smaller, fly-by-night operations. Finally, NCRC strongly supports the proposal to require Call Report data for bank securitization and asset sale activity, including past due amounts and charge-offs. This would provide valuable data for probing the financing of predatory lending activity.

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

NCRC believes that detailed information on subprime lending in the Call Reports would be an important step to stemming predatory lending and enhancing the safety and soundness of the financial industry. Thank you for considering our comments.

Sincerely,

John Taylor

John Taylor
President and CEO